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STATE FOR WHA AND EB
STATE PASS USTR FOR ZOELLICK AND VARGO
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NSC FOR SHANNON, MADISON, AND CRUZ
LABOR FOR ILAB
TREASURY FOR OASIA-LAMONICA
USDOC FOR 4322/ITA/MAC/WH/CARIBBEAN BASIN DIVISION
USDOC FOR 3134/ITA/USFCS/RD/WH

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SUBJECT: DOMINICAN REPUBLIC: USTR ZOELLICK LAUNCHES FTA
NEGOTIATIONS

[11.](#) (U) Summary. U.S. Trade Representative Amb. Robert Zoellick told Dominicans on January 15 that bilateral free trade agreement (FTA) negotiations offer an opportunity for new engagement, economic growth and strengthened institutions. He stressed that an FTA, free and fair presidential elections and a renewed IMF agreement are the three essential elements for overcoming the "difficult year" just past. Amb. Zoellick met President Mejia and his cabinet, the congressional leadership, civil society organizations, leading press and media commentators, and opposition presidential candidates. Congressman Jerry Weller (R-IL) accompanied the USTR during much of the visit, providing a perspective on legislative requirements and prospects. Dominicans generally held the same view as leading opposition candidate Leonel Fernandez: that no one was against free trade but the public needed to be better informed about the negotiations. The first round of bilateral talks moved forward, with both sides publicly expressing satisfaction on the technical content and the cordial relations at the bargaining table. Amb. Zoellick noted in private meetings that economic growth in the Dominican Republic would also provide indirect help to the population of Haiti. End summary.

[12.](#) (U) U.S. Trade Representative Robert Zoellick carried out a full program in Santo Domingo on January 15 to launch the negotiations between the Dominican Republic and the United States on a free trade agreement. The Ambassador, DCM, and chief negotiator Assistant USTR Regina Vargo accompanied him throughout the program. At the presidential palace, after conferring briefly with lead Dominican negotiator Secretary of Industry and Commerce Sonia Guzman, he participated in a full discussion with President Mejia and his economic cabinet. Following a press opportunity there, he called on congressional leaders at the Senate president's office and spoke with business leaders at a luncheon offered by the Ambassador. The USTR party visited the new, modern container port at nearby Caucedo (an investment in cooperation with U.S. firm CSX) and then went to the Catholic University (PUCMM) for exchanges with non-governmental organizations representing civil society and small and medium enterprises. Amb. Zoellick concluded the day with an hour-long press roundtable with editorialists from leading newspapers and media outlets. On January 16 he met separately with opposition presidential candidates Eduardo Estrella (PRSC) and Leonel Fernandez (PLD) before an early morning departure.

[13.](#) (U) USTR Zoellick's message to all interlocutors revolved around the same core elements:

- - The U.S. government understands that Dominican Republic has had a difficult year. The government, Congress and civil society have had to take hard decisions.

- - There are "three legs" to support the country's recovery: free, fair and transparent elections to reinforce legitimate institutions and to provide a stable base for relations; a renewed agreement with the IMF to set the conditions for financial stability; and a free trade agreement to permit the country to benefit from new opportunities in international trade.

- - Trade talks are part of a larger bilateral relationship; the USG wishes to work closely with the GODR on each of the three elements, including support with the international financial institutions.

- - As for timing, the Dominican authorities have been working for almost two years to prepare for these talks. The U.S. is pleased to offer a partner -- the Dominican Republic -- a priority place in the U.S. trade agenda.

- - The world is changing and countries that wait will be

disadvantaged. China and India, for example, will not wait. The expiration of quotas on textiles at the end of 2004 will directly affect trading opportunities and require innovation and adjustment.

- - Zoellick and U.S. negotiators want to understand Dominican needs and sensitivities, so that the sides can mutually decide how to move ahead. Tools are available, including safeguard measures and gradual phase-ins. An FTA should provide benefits for both sides -- beyond those of the Caribbean Basin Initiative -- and will assure a better climate for investment and job creation.

- - The text defined for the Central American countries (CAFTA) builds on those negotiated with Chile and with Singapore and is comprehensive in scope. U.S. negotiators anticipated issues of concern to the Dominican Republic and included them -- one example being the treatment of duty draw-backs. Special consideration was afforded the Central American countries in sectors of special sensitivity, with lengthy phase-in periods -- for dairy, some reached 20 years.

- - The agreement will require governments to adhere to standards of transparency and procedure that will reinforce a competitive environment. They will give greater access to small and medium businesses and will reduce the advantages of those previously enjoying privileged treatment.

- - Assistance in building trade capacity is essential. It can be channeled through the USG, through multilateral development banks, via the sector or through non-governmental organizations.

- - Regard for labor standards and for environmental standards is essential and is included in the text. Parties will undertake to enforce their own laws.

GODR MEETINGS

14. (SBU) President Mejia led the meeting with the GODR cabinet, breaking protocol to emphasize the importance of the FTA talks and his personal involvement. Attending along with Secretary Guzman were Finance Secretary Rafael Calderon,

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Secretary of Foreign Relations Guerrero Prats, Secretary of

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Labor Ray Guevera, Secretary of Environment Moya Pons, Intellectual Property Commissioner Jorge Mera, Assistant Governor of the Central Bank Calvo, and Commissioner for Foreign Investment Galvan. Mejia commented that Dominican monopolists and oligopolists were pretending that there was no need to open the economy, a view he found disingenuous. Mejia said that as the private sector understands the seriousness of U.S. negotiators, they will understand the advantages of an agreement.

15. (SBU) President Mejia reaffirmed his "will and iron position" to complete the IMF agreement and to comply with what he signs. The President noted that the Fund preconditions were 90 percent complete. He said that he was alarmed by the exchange rate, but added that government policy is for a free market rate, one the government cannot control. Referring to currency speculation, he commented that the dollar-earning sectors of the economy do not understand their social and economic responsibility.

16. (SBU) Central Bank Deputy Governor Calvo said the GODR needed more time to meet the monetary targets, alleging that recent developments had hurt the country's ability to comply.

(Note: The Central Bank Governor subsequently sent a letter to Secretary Snow, which Embassy has forwarded to Treasury, asking for understanding of the GODR non-compliance with the reduction in monetary base.) Calvo also raised the topic of dollarization of the economy (apparently without prior coordination), stating that studies suggest that this might be feasible. USTR Zoellick asked whether this topic had been raised at the OAS special summit in Monterrey on January 12-13.

17. (SBU) Mejia indicated that he had participated in a 20-minute meeting with Secretary of State Powell, during which President Bush had stopped in to greet presidents. Mejia told USTR Zoellick that fifteen minutes of that meeting had focused on Haiti, for which, Mejia commented, "there is no solution." Mejia added that France and Canada should take on more responsibility for addressing problems in Haiti. Zoellick noted that recovery for the Dominican economy would provide indirect benefits to Haiti. Mejia agreed, noting that a million Haitians are currently in the Dominican Republic.

CONGRESS

18. (SBU) Congressman Jerry Weller (R-IL) joined the USTR

party at the office of Senate President Jesus Vasquez. The Dominican side included House of Representatives President Alfredo Pacheco and committee chairs for foreign relations, industry and trade, and finance from both houses. In the course of discussion, Amb. Zoellick acknowledged the misgivings of Dominican producers of pork and poultry and undertook to be sensitive to local needs. He stressed the importance of labor laws and of enforcement, particularly the laws against child labor and trafficking in persons. He commented that reductions in tariffs under an FTA would require fiscal adjustments over a transition period; lowering tariffs and increasing competition on basic goods and consumer commodities would directly benefit the poorest Dominicans. (Q: WHAT DID THE DOMINICAN SIDE SAY?)

19. (SBU) Congressman Weller commented that legislative approval of the FTA would be difficult for both countries in an election year and asked that the legislators help explain the FTA's benefits to their constituents and to Dominicans living in the U.S. through the Dominican American Roundtable and other organizations.

10. (SBU) Senate President Vasquez noted that the Dominican Congress and Executive have assigned a liaison group of legislators to follow the FTA negotiations, keep other members updated, and answer any questions they might have. He hoped the IMF negotiations could be concluded as quickly as possible and said his country had "advanced greatly" in conducting free and fair elections and would not backslide to the irregularities of earlier times. House of Representatives President Pacheco and a committee chairman spoke of their concerns about the high costs of maritime and air freight. One committee chairman appealed for more aid from the international community for reconstruction of Haiti, "which cannot be at the expense of the Dominican Republic" (Note: Providing services to illegal Haitian migrants. End note.) Amb. Zoellick replied that one of the best ways to help Haiti would be to develop the Dominican economy next door.

OPPOSITION CANDIDATES

11. (SBU) Amb. Zoellick hosted breakfast meetings at his hotel for PRSC candidate Eduardo Estrella and for PLD candidate Leonel Fernandez. Estrella opened with the affirmation that he supports an FTA and was one of the first to request it. Pork and poultry are sensitive sectors; tariffs need to be reformed generally and customs must apply them in transparent fashion. He is concerned about corruption in the customs service and in general; this will be a theme of his campaign. Amb. Zoellick noted that an FTA will lower the cost of corn as an input to the livestock sector. The United States is a pork exporter, so that sector is a supporter for free trade; however, the U.S. side will deal in a sensitive manner with sensitive subjects. Estrella spoke of his support for competition and openness in government procurement, an area where the FTA could help. He expects to make this point during campaign trips to New York and New Jersey. He outlined his concerns about maneuvers affecting the Dominican presidential elections and commented that the proposed draft changes to the electoral law would create confusion and could open the door to massive fraud.

12. (SBU) In contrast to Estrella's focused approach, PLD candidate Leonel Fernandez focused first on the presidential election. In campaign speech style, he recalled the flourishing of the Dominican economy during his 1996-2000 presidency. The 2000 elections had been fair. President Mejia had made untimely decisions and mismanaged fiscal policy, wage rates, public sector employment and debt. During his own presidency, he said, the government had stood in the background to the private sector; in contrast, Mejia's administration has made itself central. Debt has risen from the equivalent of 18 percent of GDP to more than 50 percent. Mejia had shown his authoritarian tendencies with constitutional amendments and the imposition of judges for the Elections Board (JCE). Fernandez's PLD wants a code of conduct for the JCE. He said that political primaries do not work in the Dominican context but rather encourage fragmentation. The country needs international election observers. Special attention should be paid to auditing computer systems and their use.

13. (SBU) Amb. Zoellick outlined U.S. views on the FTA and the need for an IMF package and agreed on the importance of free and fair elections. Fernandez noted that talks coincide with the presidential election campaign, in which polls currently show him receiving 63 percent as opposed to 15 percent for Mejia. When Zoellick asked Fernandez for his own opinion about the FTA, Fernandez commented that farmers were uncertain about the proposals, especially the producers of rice, pork and chicken. U.S. farmers are subsidized while Dominicans are not. The Dominican Agricultural bank is decapitalized, the United States imposes non-tariff barriers and the GODR is imposing (temporary) export taxes. Farmers see the FTA as benefiting primarily the free trade zones.

¶14. (SBU) Amb. Zoellick characterized negotiations as a "problem solving exercise" -- building in measures to deal with prevailing conditions, such as high interest rates in pesos and U.S. producers, complaints about low wages abroad. He stressed the utility of the transparency required by the FTA. Dominicans resident in the United States could help persuade U.S. legislators to accept a CAFTA/Dominican Republic agreement.

¶15. (SBU) "There is no real rejection of free trade by Dominicans," replied Fernandez, "either here or there." There was apprehension, however, and a need to educate people and advertise the advantages of an agreement.

¶16. (SBU) Amb. Zoellick mentioned competition in services and the interest in reducing the costs of remittances from the United States. Fernandez agreed, citing a study done by CUNY's Dominican Studies Center. Remittances are about USD 2.2 billion, he said, which is about 10 percent of the earnings of Dominicans in the United States and equivalent to about 10 percent of Dominican GDP. He agrees that an FTA is part of a larger development process. Amb. Zoellick closed by emphasizing that with financial stability secured with IMF help, an FTA can create a turnaround for the Dominican economy.

CIVIL SOCIETY AND PRESS ROUNDTABLES

¶17. (SBU) A roundtable at the Pontifical Mother and Master Catholic University, chaired by Rector (and prominent political mediator) Msgr. Agripino Nunez, included some eighteen economic, environmental, legal, justice reform, small and medium business, and labor experts. Participants agreed there were concerns about the fast timetable for the FTA negotiations, perceived shortcomings in CAFTA, and a potential negative impact on the Dominican Republic's jobs, small businesses, and environment. Amb. Zoellick emphasized the lengthy preparatory work on both sides and the extensive customizing to the proposed draft for the Dominican Republic. He pointed to comprehensive environmental, regulatory, and transparency provisions in the draft and the potential of an FTA to create opportunities for small and medium enterprises and benefit consumers by opening up competition. Amb. Zoellick also referred to USAID's trade capacity building program and related IFI financing. He said the FTA could enable a bilateral partnership to solve problems together and help the Dominican Republic enforce its own labor and environmental laws. During an hour-long discussion with senior editorial board members and media representatives, Amb. Zoellick stressed that the U.S. intention was not limited to encouraging trade; instead, it is to create an opportunity for growth, development, support for the rule of law, a link to the U.S. economy, and points of leverage for domestic reform processes.

COMMENT

¶18. (SBU) Amb. Zoellick delivered the message on free trade and in providing another strong demonstration of U.S. interest and concern for the economic plight of the hard pressed Dominicans. He received extensive press coverage -- his photo and visit were the only items above the fold on the next day's "Listin Diario." We expect favorable op-ed comment to follow.

¶19. (SBU) His was an upbeat modulation on the U.S. diplomatic and public diplomacy approach. In November Treasury Under Secretary Taylor listened to Dominican concerns about a dire economic situation, reflected them back to interlocutors and provided steady reassurance that a solution was possible through the IFIs, with U.S. support. In December, Assistant Secretary of State Noriega continued that message and added the strong U.S. concern about institutional weaknesses, election arrangements and corruption. USTR Amb. Zoellick explicitly included those themes in his visit and linked them to the promise of recovery and the opportunities of competition and free trade.

¶20. (U) The presence of Congressman Weller and his comments were a further demonstration of the seriousness of the U.S. side and its intention to see the free trade negotiation process through to a successful conclusion. Meanwhile the first round of bilateral talks went forward January 12-16 without incident, with both sides expressing satisfaction on the technical content and the cordial relations at the bargaining table.

¶21. USTR has reviewed this cable.
HERTELL